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**International  
Accounting Standards  
Board**

*This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.*

*These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.*

### **INFORMATION FOR OBSERVERS**

**Board Meeting:** 17 April 2008, London

**Project:** Revenue Recognition

**Subject:** Cover note (Agenda paper 11A)

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#### **Papers for the meeting**

1. The papers for the April meeting are as follows:
  - Memo #107 / Agenda Paper 11B *Accounting for contracts with customers*
  - Memo #108 / Agenda Paper 11C *Performance obligations*
  - Memo #109 / Agenda Paper 11D *Satisfaction of performance obligations*
2. These papers are, respectively, draft versions of Chapters 2, 3 and 4 for the forthcoming discussion paper on revenue recognition. These chapters discuss the core definitional and recognition issues relating to the proposed contract-based model. More specifically, they address:
  - why the Boards propose basing their revenue recognition model around the asset or liability arising directly from the rights and obligations in the contract with a customer (ie the contract asset or contract liability);
  - the recognition of the contract asset or liability;

- the identification of the performance obligations that are included in that contract asset or liability; and
  - determining when those performance obligations are satisfied.<sup>1</sup>
3. The Board has previously decided that these issues are independent of measurement. As a result the staff does *not* think we should continue to refer to *two* revenue recognition models (ie the so called *customer consideration* and *measurement* models). Rather, we think the Boards have developed a *single* revenue recognition model that has two measurement approaches (ie customer consideration—or contract price—and current exit price). The staff thinks that discussing the definitional and recognition issues relating to the contract-based model in three chapters before introducing the two measurement approaches in Chapter 5 emphasises this important point.

#### **Development of the papers**

4. The Boards discussed an earlier version of Chapter 2 (Accounting for Contracts with Customers) in November.<sup>2</sup> The main changes that we have made to this chapter include:
- amending the discussion about the focus on assets and liabilities to ensure that we do not inadvertently suggest that the Boards had any alternative but to pursue an assets and liabilities approach or that much of the current literature is not asset and liability based;
  - a clearer explanation of what the Boards mean by a contract; and
  - a discussion of when that contract should first be recognised.
5. The content of chapters 3 (Performance Obligations) and 4 (Satisfaction of Performance Obligations) has been developed from January’s paper on performance obligations. Based on comments received in January’s Board meetings and afterwards, we have:

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<sup>1</sup> Chapter 1 of the discussion paper will be an introductory chapter that explains why the Boards have undertaken the project and places the project into context.

<sup>2</sup> Memo #96/Agenda Paper 4B

- revised the description of when a service obligation is satisfied to remove the notion of the customer ‘receiving an immediate benefit’. Some of you noted the awkwardness of saying that a customer has received a benefit if, say, a painter has only painted half the customer’s house. This is because a customer at that point would probably consider itself to be in a worse position than it was before painting began, even though it has received economic resources.
- modified the discussion about return rights. We note that a number of IASB members still have reservations about regarding a typical return right as giving rise to a separate performance obligation. On reflection, we think that these reservations primarily relate to concerns about whether the rights to the good have actually transferred to the customer at the point of sale and, hence, whether the performance obligation to provide the good has in fact been satisfied. As a result we have modified our articulation of the two views about return rights.

### **Objective of the meeting**

6. The main issues for the Board to consider are:
  - is the discussion of the topics in these papers sufficiently complete and clearly explained?
  - are the main alternative views appropriately captured in the discussion?

### **Next steps**

7. Following the Boards’ discussions, we will amend these chapters. We then plan to issue a complete first draft of the discussion paper in the first half of May. In May we also plan to have a final Board discussion about the measurement approaches to be discussed in the discussion paper. We think the conclusion of the measurement chapter needs to give constituents an indication of the Boards’ leanings, and the purpose of the discussion in May will be to determine what those leanings are.